

Message Text

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PAGE 01 GENEVA 09524 01 OF 02 221704Z
ACTION STR-07

INFO OCT-01 STRE-00 ISO-00 IO-13 EUR-12 AGRE-00 CEA-01
CIAE-00 COME-00 DODE-00 EB-08 FRB-03 H-01 INR-10
INT-05 L-03 LAB-04 NSAE-00 NSC-05 PA-01 CTME-00
AID-05 SS-15 ITC-01 TRSE-00 ICA-11 SP-02 SOE-02
OMB-01 DOE-15 DOEE-00 SSO-00 NEA-11 /137 W
-----021520 221831Z /42

P 221636Z JUN 78
FM USMISSION GENEVA
TO SECSTATE WASHDC PRIORITY 1221
INFO AMEMBASSY BRUSSELS
AMEMBASSY ROME

LIMITED OFFICIAL USE SECTION 01 OF 02 GENEVA 09524

USMTN

USEC

ACTION STR PASS ELECTRONICALLY
STR PASS CODEL

E.O.11652:N/A
TAGS: ETRD, MTN, IT, EEC
SUBJECT: CITRUS, THE EC AND ITALY

1. WHILE WE HAVE RECEIVED SOME VERY GUARDED HINTS FROM
TOP LEVELS OF EC COMMISSION (GUNDELACH AND RABOT) THAT
THE EC MAY BE ABLE TO DO "SOMETHING" FOR THE U.S. ON
CITRUS, DETAILED US-EC PRODUCT NEGOTIATIONS HAVE NOT YET
BEEN ENGAGED AND MAY NOT OCCUR UNTIL THE CRUNCH PERIOD
SHORTLY BEFORE JULY 15. MTN DEL IS CONCERNED THAT TOWARD
THE LAST MOMENT GUNDELACH OR RABOT MAY (ALBEIT WITH GREAT
RELUCTANCE) OFFER TO TRY TO SELL TO THE ITALIAN GOVERNMENT
SOME IMPROVEMENT FOR US ON CITRUS. A LAST-MINUTE PROPOSAL
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PAGE 02 GENEVA 09524 01 OF 02 221704Z

ON CITRUS SEEMS LIKELY TO BE REJECTED OUT-OF-HAND BY THE
ITALIAN GOVERNMENT IN ABSENCE OF SOME GROUNDWORK WITH GOI.
WE ACCORDINGLY RECOMMEND WASHINGTON INSTRUCT EMBASSY ROME
TO TAKE MATTER UP WITH GOI SOONEST, DRAWING ON MATERIAL
OUTLINED BELOW (WHICH WASHINGTON MAY WISH TO REVISE OR
SUPPLEMENT).

2. GOI SEEMS TO HAVE ALMOST A "KNEE-JERK" NEGATIVE REACTION TO ANY SUGGESTION OF FURTHER "CONCESSIONS" IN THE MTN ON CITRUS. WE SAY "KNEE-JERK" BECAUSE IT IS NOT AT ALL CLEAR TO US WHAT BENEFITS ITALIAN CITRUS INDUSTRY GAINS FROM PRESENT EC CITRUS REGIME NOR IS IT CLEAR THAT ITALIAN CITRUS INDUSTRY WOULD BE DAMAGED BY CITRUS CONCESSIONS WE ARE SEEKING IN THE MTN. WE DO NOT EXPECT TO MARKET FRESH CITRUS IN ITALY AND WE BELIEVE NO OTHER COUNTRY NOW DOES SO OR INTENDS TO. OUR CITRUS MARKET INTEREST IN THE EC IS OTHER MEMBER STATES, PARTICULARLY GERMANY. IF ITALY MANAGES TO ISOLATE THE ITALIAN MARKET FROM IMPORT COMPETITION FROM FRESH CITRUS (AS IT SEEMS TO DO AT PRESENT) THAT IS AND WOULD BE OF NO CONCERN TO THE U.S. EC IMPORTS OF FRESH CITRUS ARE ENORMOUS AND GROWING RAPIDLY, BUT ITALY IS ONLY A SMALL SUPPLIER OF CITRUS TO OTHER EC MEMBER STATES. ITALY HAS SOME MARKET IN SOUTHERN GERMANY FOR ITS BLOOD ORANGES, BUT MILLIONS OF TONS OF OUTSIDE CITRUS ARE PURCHASED BY THE MEMBER STATES FROM NON-EC SOURCES. U.S. FRESH ORANGES HAVE ONLY A TINY AND SHRINKING SHARE OF EC IMPORT MARKET (ABOUT 3 PERCENT). FIFTY PERCENT COMES FROM SPAIN AND AN ADDITIONAL 10 PERCENT EACH FROM ISRAEL AND MOROCCO. THE CRAZY-QUILT OF CITRUS PREFERENCES FOR VARIOUS MEDITERRANEAN SUPPLIERS WITH DIFFERENT DUTIES AND PREFERENCES FOR DIFFERENT SEASONS DISTORTS THE MARKET AND DELIBERATELY PROVIDES INCENTIVE FOR PRODUCTION FOR THE EC MARKET BY MEDITERRAN- LIMITED OFFICIAL USE

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PAGE 03 GENEVA 09524 01 OF 02 221704Z

EAN SUPPLIERS. ITALY HAS NO MONOPOLY ON SUPPLYING CITRUS TO THE OTHER MEMBER STATES AND PREFERENCES TO MEDITERRANEAN COUNTRIES ARE ERODING ITS ALREADY PRECARIOUS POSITION. THE ONLY OUTSIDE (NON-PREFERENCE) COUNTRY THAT IS GENUINELY DAMAGED BY THE EC CITRUS PREFERENCE REGIME IS THE UNITED STATES (AND SOUTH AFRICA).

3. AN ITALIAN POSTURE OF "NO CITRUS CONCESSIONS" PUTS ITALY IN THE POSITION OF BEING THE PRIME DEFENDER OF THE MEDITERRANEAN PREFERENCE REGIMES, THUS ENCOURAGING PRODUCTION IN THESE AREAS FOR OTHER EC MEMBER STATE CONSUMPTION. ANALYSIS AND FORECASTS BY U.S. CITRUS INDUSTRY INDICATE THAT A FEW YEARS AFTER SPANISH ACCESSION TO EC, SPAIN WILL ATTRACT SUFFICIENT INVESTMENT TO ENABLE SPAIN TO SUPPLY THE ENTIRE EC-12(?) FRESH ORANGE CONSUMPTION, NOT ONLY ELIMINATING THE TINY FOOTHOLD U.S. CITRUS NOW HAS, BUT EFFECTIVELY ELIMINATING ALL IMPORTS FROM MOROCCO, ISRAEL, ETC. UNLESS ITALY CAN GET EC APPROVAL TO COMPLETELY ISOLATE THE ITALIAN CITRUS MARKET, EVEN THE ITALIAN MARKET WILL BE AT RISK AFTER SPANISH ACCESSION.

4. U.S. OBJECTIVES RE CITRUS IN THE MTN ARE NOT DESIGNED

TO DO IN THE ITALIAN INDUSTRY BUT SIMPLY TO PERMIT US TO
COMPETE FAIRLY FOR MARKETS IN OTHER MEMBER STATES THAT
ITALY HAS ALREADY LOST. U.S. CITRUS WILL FACE EXTREMELY
TOUGH COMPETITION FROM SPAIN, MOROCCO, ISRAEL AND OTHERS,
AND NONE OF THESE COUNTRIES NEEDS THE EXCESSIVE MARGINS
OF PREFERENCES NOW GRANTED BY EC. U.S. REQUEST OF DUTY-
FREE ENTRY FOR ORANGES, EXCEPT DURING PEAK ITALIAN MAR-
KETING SEASON, DUTY-FREE GRAPEFRUIT AND REDUCED DUTY FOR
LEMONS, WOULD ON BALANCE, WE BELIEVE, BE OF NET BENEFIT
TO ITALY BY AVOIDING CONTINUATION OF INCENTIVES FOR OVER-
PRODUCTION BY MEDITERRANEAN SUPPLIERS NOW AND AVOIDING
ARTIFICIAL STIMULUS FOR MUCH GREATER THREAT OF MASSIVE
EXPANSION OF SPANISH PRODUCTION.

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PAGE 01 GENEVA 09524 02 OF 02 221650Z
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TO SECSTATE WASHDC PRIORITY 1222
INFO AMEMBASSY BRUSSELS
AMEMBASSY ROME

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5. DRAFTED BY CULBERT. MCDONALD

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